

THE PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

PACT

Program Description, Rules, Regulations and Procedures

**Approved by the Board of Trustees
May 19, 2004**

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RULES, REGULATIONS, AND PROCEDURES

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SECTION 1 PROGRAM DESCRIPTION

Under the Wallace-Folsom College Savings Investment Plan Act, Sections 16-31C-1 etc., Code of Alabama, 1975 (as last amended), the Prepaid Affordable College Tuition Trust Fund (hereinafter "the Trust Fund") as established as an educational trust fund created within the State Treasury so that 135 semester hours of tuition and 8 semesters of mandatory fee payments at a public college or university in the State of Alabama can be paid, in advance, for a child's undergraduate enrollment

The prepayment program is known as PACT, Prepaid Affordable College Tuition. An individual, corporation, trust, charitable organization, or other Entity may purchase a PACT Contract. The PACT Contract provides for the payment by the Trust Fund of undergraduate tuition, for a specified number of credit hours, and for the payment of Mandatory Fees, for a specified number of academic terms, on behalf of the Beneficiary for whom the PACT Contract is purchased. The PACT Program is administered by the Office of the State Treasurer under the guidance of a ten member Board of Trustees chaired by the State Treasurer.

The cost of a PACT Contract is based primarily on the average current and projected tuition and Mandatory Fee rates at public colleges and universities in Alabama and on the number of years expected to elapse between the purchase of a PACT Contract and the exercise of the benefits provided in the PACT Contract by the Contract Beneficiary. The Board of Trustees has established the cost of PACT Contracts in accordance with actuarial assumptions recommended by the Actuary.

Payments by PACT Contract Purchasers are deposited in the Trust Fund and are combined and invested with the goal of yielding, at a minimum, sufficient income to generate the difference between the prepaid amount and the cost of Instate Tuition and Mandatory Fees at the time of actual enrollment of the Beneficiary. The PACT Contract Purchaser receives periodic statements reflecting amounts paid into the Trust Fund.

SECTION 2 LOCATION OF PACT OFFICES

PACT Program headquarters are located in the Office of the State Treasurer, RSA Union, 100 North Union Street, Suite 660, Montgomery, Alabama 36130. Office hours are 7:30 A.M. through 5:00 P.M., Monday through Friday, except legal holidays. Persons may obtain forms, publications, and documents by writing, visiting, or calling the PACT offices at 334-242-7514 or 1-800-ALA-PACT. The PACT Brochure, Application and other documents are available through the web site at www.treasury.state.al.us.

SECTION 3 PROGRAM ADMINISTRATION

The PACT Program is administered by the State Treasurer under the direction of a ten (10) member Board of Trustees. The Board of Trustees is chaired by the State Treasurer.

The fiscal year of the PACT Program corresponds to the fiscal year of all other state entities, i.e. October 1st

through September 30th. Each fiscal year, the Board will evaluate, or cause to be evaluated, the actuarial soundness of the Trust Fund. The Board will annually prepare, or cause to be prepared, on a fiscal year basis, a report setting forth an accounting of the Trust Fund and a description of the financial condition of the Trust Fund.

SECTION 4 THE ADMINISTRATIVE FUND

An Administrative Fund, separate from the Trust Fund and known as the Prepaid Affordable College Tuition Administrative Account, has been established to provide for the administrative costs of the PACT program. In general, administrative fees paid by PACT Contract Purchasers are deposited in the Administrative Fund and are used to defray the administrative costs of the PACT program.

SECTION 5 THE TRUST FUND

The Trust Fund has been created within the State Treasury to accept State appropriations, monies acquired from other governmental or private sources, and monies remitted by Purchasers in accordance with PACT Contracts. All monies deposited into the Trust Fund are invested in accordance with the Comprehensive Investment Policy of the Trust Fund, adopted by the Board of Trustees. This Investment Policy may be amended from time to time.

SECTION 6 DEFINITIONS

In these rules, regulations, and procedures of the PACT Program, the following terms shall be defined as follows:

6.00 "Board" means the ten member Board of Trustees chaired by the State Treasurer and established by Section 16-33C-4, Code of Alabama 1975 (as last amended).

6.01 "Application" means a request for acceptance into the PACT Program, made on a published form or a duplicate form.

6.02 "Application Processing Fee" means the processing fee, specified in Section 12.011, paid by the PACT Contract Purchaser upon application for entrance into the PACT Program.

6.03 "PACT Enrollment Period" means any period during which Applications for enrollment in the PACT Program will be accepted.

6.04 "Qualified Beneficiary" means an individual who meets all Beneficiary eligibility criteria as specified in Section 9.00 and who is designated by the PACT Contract Purchaser to be the recipient of the PACT Contract benefits. All references to the Contract Beneficiary within these Rules, Regulations, and Procedures assumes that the Beneficiary meets the Beneficiary eligibility requirements of PACT and is, therefore, a Qualified Beneficiary.

6.05 "Contract Purchaser" means any adult person, corporation, trust, charitable organization or other Entity eligible to purchase a PACT Contract, and who is obligated to make PACT Contract payments and Administrative Fee payments in accordance with the PACT Contract. PACT Contract payments may be made by someone other than the designated Contract Purchaser.

6.06 "Successor Account Owner" means an individual, named by the Purchaser, who becomes the owner of the PACT contract in the event of death of the Purchaser.

6.07 "PACT Contract" refers collectively to the PACT Application, the MasterPACT, and the Participation and Payment Schedule. Additional documents relating to the PACT Contract such as the Program Rules, Regulations and Procedures and the Disclosure Document, pursuant to the various terms and conditions described, will be incorporated into the PACT Contract.

6.08 "Participation and Payment Schedule" means the document which defines the frequency, duration, amount, and due date of PACT Contract payments, based on information provided by the Purchaser on the PACT Application.

6.09 "MasterPACT" means the legal document which specifies the terms and conditions of the PACT Program.

6.10 "Matriculation" means the process of enrolling and attending an institution of higher education.

6.11 "Postsecondary Institution" means a public educational Associate of Arts or baccalaureate degree-granting postsecondary institution; or a private, independent Associate of Arts or baccalaureate degree-granting college or university; or an out-of-state Associate of Arts or baccalaureate degree-granting college or university as set forth in Section 529 of the Internal Revenue Code of 1986.

6.12 "Public Postsecondary Institution" means any college or university listed in Section 7.

6.13 "Out-of-State Postsecondary Institution" means an Associate of Arts or baccalaureate degree-granting college or university located outside of the State of Alabama.

6.14 "Independent/Private Instate Postsecondary Institution" means an independent/private, Associate of Arts or baccalaureate degree-granting college or university, located and chartered in Alabama, which is supported wholly or principally from sources other than State monies. The Independent/Private Postsecondary Institution may be accredited by the Commission on Colleges of the Southern Association of Schools and Colleges.

6.15 "Academic School Year" means three quarters or two semesters of a twelve-month school year.

6.16 "Instate Tuition" or "Instate Tuition Rate" means the tuition rate charged to a student who meets the instate residency requirements of the particular Public Postsecondary Institution attended by the student.

6.17 "Mandatory Fees" means those fees required as a condition of enrollment for ALL students attending the Postsecondary Institution in which the Qualified Beneficiary is enrolled and to which the Trust Fund payments will be made on behalf of the Qualified Beneficiary. The term "Mandatory Fees," as used herein, does not include the following:

Charges for tuition or credit hours

Books

Transportation, including parking fees

Supplies

Food, meal tickets

Room or board

Application, entrance or orientation fees

Health/insurance/medical fees

Student athletic/activity/service/union building fee

Laboratory or class specific fees

Yearbook fees

Student Identification Card fees

Fraternity or sorority fees

At program inception, PACT covered mandatory fees because some institutions classified a portion of tuition as mandatory fees rather than tuition. Over the years, these fees continue to be reclassified and redefined, necessitating specific exclusions. Mandatory fee exclusions become effective the fall term.

The term "Mandatory Fees," as used herein may not be limited to, but does include the following:

Technology fee

Building/facility fee

Administrative/instructional/learning resource fee

6.18 "Projected College Entrance Date" means the Academic School Year following the Qualified Beneficiary's projected high school graduation and is the earliest date for utilization of PACT Contract benefits. The Projected College Entrance Date is based on information provided by the Purchaser in the PACT Application.

6.19 "Substitute Beneficiary" means an individual, defined by the Internal Revenue Code of 1986 and named by the PACT Contract Purchaser to receive, in place of the originally named Qualified Beneficiary, the benefits provided under the PACT Contract and who meets the eligibility criteria specified in Section 9.01.

6.20 "Immediate Family," for purposes of these rules, means any of the following relations of the Qualified Beneficiary as defined by the Internal Revenue Code of 1986:

- the original beneficiary's spouse
- the original beneficiary's son or daughter, or that person's spouse
- a descendent of the beneficiary's son or daughter, or that person's spouse
- a sibling or step-sibling of the beneficiary, or that person's spouse
- a parent of the beneficiary, ancestor of a parent, or that person's spouse
- a step-parent of the beneficiary, or that person's spouse
- a son or daughter of the beneficiary's sister or brother, or that person's spouse
- a brother or sister of the father or mother of the beneficiary or that person's spouse
- a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the beneficiary, or that person's spouse
- first cousin

6.21 "Partial Scholarship" or "Full Scholarship" or "Scholarship" means grants, gifts, or other financial aid awarded to a Qualified Beneficiary in an amount sufficient to pay a portion or all of the same benefits as are provided under a PACT Contract. A loan is not considered a Scholarship.

6.22 "Disability of the Qualified Beneficiary" means a disability which, based on the findings of a qualified health care professional, renders the Qualified Beneficiary incapable of participating in higher education.

6.23 "Expiration" means involuntary discontinuation of the Purchaser from the PACT Program and involuntary discontinuation of the Qualified Beneficiary's right to receive benefits under a PACT Contract resulting from the expiration of the ten year period for use of contract benefits which extends from the original projected enrollment year.

6.24 "Cancellation" means voluntary or involuntary discontinuation of the Purchaser from the PACT Program and discontinuation of the Qualified Beneficiary's right to receive benefits under a PACT Contract, when requested by the Purchaser, so long as the Purchaser has provided at least thirty (30) days' written notice to the State Treasurer and has submitted all applicable Administrative Fees.

6.25 "Current Tuition Value" means the weighted average of Instate Tuition and Mandatory Fees for the previous fall term at the four-year Public Postsecondary Institutions. The Current Tuition Value is used to establish the payment to out-of-state and private institutions and is effective January 1st of each year.

6.26 "Participation and Payment Schedule" means the document, prepared by the State Treasurer, defining the frequency, duration, amount, and due date of PACT Contract payments, based on information provided by the Purchaser in the PACT Application.

6.27 "Administrative Fees" means those fees, listed in Section 12, which may be assessed to the PACT Contract Purchaser.

6.28 "Actuarial Assessment" means an additional contract amount assessed to compensate the trust fund for loss of earnings. For an unpaid or partially paid lump sum account, this amount will be 1% of the outstanding balance per month. For the reinstatement of a Monthly Payment Plan the actuarial assessment is the difference between the future value of the prescribed monthly payments and the future value of the payments actually made by the purchaser. The actuarial assessment for a change from the Extended Payment Plan to the 5 Year Payment Plan is the difference between the future value of the contract payments of each plan.

6.29 "Advance Payment" means any PACT contract payment in excess of the monthly payment established for an account where all monthly payments are current and all administrative fees are paid. Provided the account remains current with monthly payments and no outstanding fees, advance payments will result in an earlier pay off and interest savings.

6.30 "Contract Payments Received" means total of payments received by PACT toward the purchase of a Contract.

6.31 "Canceled Contract Principal" means Contract Payments Received, less any Administrative Fees paid, as of the date of Cancellation or Termination of the Contract.

6.32 "Passbook Average" means the average of the passbook savings interest rates paid by the five largest banking institutions in the state of Alabama as of September 30th of each year.

6.33 "Canceled Contract Rate of Interest" means the lesser of (1) the immediately preceding Passbook Average, or (2) 5%.

6.34 "Canceled Contract Interest" means the amount yielded by applying the Canceled Contract Rate of Interest to Canceled Contract Principal. The period shall include completed months from the date each payment is made until cancellation.

6.35 "Benefits Paid" means the total amount of payments actually paid by PACT to a Postsecondary Institution and does not include any amount paid to the Purchaser as part of a refund.

6.36 "Redemption Value" means the Canceled Contract Principal plus Canceled Contract Interest, less any Administrative Fees owed and unpaid, less a

Cancellation Fee, less Benefits Paid as of the date of Cancellation of the Contract.

6.37 "Contract Purchase Amount" means the Redemption Value of a PACT contract for purposes of presuming the PACT contract abandoned property.

SECTION 7 ALABAMA PUBLIC COLLEGES & UNIVERSITIES

These Rules, Regulations, and Procedures apply to Purchasers and Qualified Beneficiaries of PACT Contracts for the prepayment of tuition and Mandatory Fees, as defined in Section 11.01, at any of the State's public four year colleges and universities, public junior colleges, public community colleges, public technical colleges, and public senior colleges. These Public Postsecondary Institutions are defined by the Internal Revenue Code of 1986 and currently are as follows:

Public Four Year Postsecondary Institutions:

- Alabama A & M University
- Alabama State University
- Auburn University
- Auburn University at Montgomery
- Jacksonville State University
- University of West Alabama
- Troy State University
- Troy State University Dothan
- Troy State University Montgomery
- University of Alabama
- University of Alabama at Birmingham
- University of Alabama at Huntsville
- University of Montevallo
- University of North Alabama
- University of South Alabama

Public Two Year Postsecondary Institutions:

- Public Community Colleges:
- Alabama Southern Community College
- Bevill State Community College
- Bishop State Community College
- Calhoun Community College
- Central Alabama Community College
- Chattahoochee Valley Community College
- Faulkner State Community College
- Gadsden State Community College
- Jefferson Davis Community College
- Jefferson State Community College
- Lawson State Community College
- Northeast Alabama Community College
- Northwest-Shoals Community College
- Shelton State Community College
- Snead State Community College
- Southern Union State Community College
- Wallace Community College, Dothan
- Wallace State Community College, Hanceville
- Wallace State Community College, Selma

Public Junior Colleges:

- Enterprise - Ozark Community College
- Lurleen B. Wallace Junior College

Public Technical Colleges:

- Ayers State Technical College
- Bessemer State Technical College
- Drake State Technical College
- Lurleen Wallace Community College,
- MacArthur Campus
- Reid State Technical College
- Trenholm State Technical College

Public Senior Colleges:

- Athens State University

SECTION 8 CONTRACT PURCHASER

8.00 Eligibility of Contract Purchaser-The Purchaser of a PACT contract may be a natural person, a corporation, a trust, or a charitable organization. The Purchaser, if a natural person, must be nineteen (19) years of age or older, or must be represented by a court appointed conservator or guardian, or a trustee, or a designated custodian under the provisions of Title 26-2-20, Code of Alabama, 1975, (as last amended).

8.01 Nonacceptance of the Purchaser's Application-A prospective Contract Purchaser may be denied a PACT Contract if the Purchaser does not meet the qualifications set forth in Section 8.00; if the PACT Contract violates local, state, or federal laws; if the proposed Beneficiary is not a Qualified Beneficiary in accordance with Section 9.00; if the Board determines that it is advisable to limit the number of PACT Contracts; if the Contract Purchaser fails to submit the PACT Application during an official PACT Enrollment Period; if the Contract Purchaser fails to submit the Application Processing Fee; if the Contract Purchaser submits an Application with incomplete information.

8.02 Number of Purchasers Per Contract-Only one (1) individual, corporation, trust, organization, or other Entity may be named on each PACT Application and in the PACT Contract as the PACT Contract Purchaser. Joint Purchasers are not permitted. However, a Successor Account Owner may be designated by the Purchaser.

8.03 Transfer of PACT Contract Ownership to Another Purchaser-All requests to transfer ownership of the PACT Contract to a different Purchaser must be submitted, in writing. The request must contain the signatures of both the current Purchaser and the Purchaser to whom ownership of the Contract is being transferred, unless the current Purchaser has died or has become disabled and cannot furnish a signature. If the current Purchaser has died or become disabled, proof of death or Disability and a copy of the page from a will evidencing the authority to make the change, Letters Testamentary or Power of Attorney, must accompany the written request for a change in Purchaser in lieu of the current Purchaser's signature. Any request for a change in Purchaser must also contain the PACT Contract number as well as the name, address, social security number, and telephone number of the new Purchaser. The request must also be accompanied by the applicable Administrative Fee(s) as described in Sections 12.00 and 12.015.

SECTION 9 QUALIFIED BENEFICIARY

9.00 Beneficiary Eligibility-An individual may be named the Original Beneficiary of a PACT Contract if such individual meets ALL of the following requirements:

- (1) The individual is under the age of eighteen (18) on the first day of the PACT Enrollment Period;
- (2) The individual has not completed the ninth (9th) grade as of the first day of the PACT Enrollment Period in question;
- (3) The individual has been born at the time the Application is submitted.

A Beneficiary may be a U.S. citizen, a permanent resident alien, or a dependent of a U.S. citizen or of a permanent resident alien.

9.01 Beneficiary Substitutions-The benefits of a PACT Contract may be transferred to an Eligible Substitute Beneficiary as defined by the Internal Revenue Code of 1986. To qualify as eligible, the Substitute Beneficiary must meet all of the following requirements:

- (1) The Substitute Beneficiary must be born;
- (2) The Substitute Beneficiary must be a member of the Immediate Family of the original Qualified Beneficiary; and
- (3) The Substitute Beneficiary must assume the same ten year period for the use of contract benefits as the original beneficiary.

Requests for transfer of the PACT Contract benefits to an Eligible Substitute Beneficiary must be in writing. All requests for Beneficiary substitutions should be submitted on the proper form stating the relationship of the Substitute Beneficiary to the original Qualified Beneficiary.

If the substitute beneficiary is older than the original beneficiary, an actuarial assessment may be made to cover the time difference in the projected enrollment year for the original beneficiary and the substitute beneficiary. This assessment must be paid in order for the beneficiary substitution to be approved. No benefits can be paid on behalf of the substitute beneficiary unless the assessment described in this section as well as all other

contract costs are paid in full. In the event of a beneficiary substitution, monies previously paid to the PACT Program on behalf of the original beneficiary will not be refunded.

A nonrefundable Administrative Fee, as described in Section 12.014, may be assessed for the transfer of PACT Contract benefits to an Eligible Substitute Beneficiary. The Fee should be submitted by the Purchaser at the same time that the written request for substitution of Beneficiary is made.

9.02 Beneficiary Substitution After Contract Benefits Have Been Utilized by the Original Beneficiary-

If the original beneficiary has utilized any contract benefits, the substitute beneficiary must meet the following requirements:

- (1) The substitute beneficiary must be a member of the immediate family of the original beneficiary as defined by the Internal Revenue Code of 1986;
- (2) The substitute beneficiary must not have an active contract;
- (3) The substitute beneficiary must assume the same ten year period for use of contract benefits as the original beneficiary;
- (4) There must be at least fifteen semester hour of tuition remaining; and
- (5) The beneficiary substitution must occur prior to graduation of the original beneficiary.

No benefits will be paid for the substitute beneficiary prior to the date of the substitution.

SECTION 10 APPLICATION

10.00 PACT Enrollment Period-A PACT Contract may be purchased during a valid Enrollment Period. The PACT Enrollment Period shall commence and terminate on dates set by the Board.

10.01 Application-Any individual, corporation, trust, charitable organization, or other Entity desiring to enter into a PACT Contract on behalf of a Qualified Beneficiary must submit a completed Application with the Application Processing Fee described in Section 12.011. A PACT Application may be obtained by calling the Prepaid Affordable College Tuition Program at either 1-800-ALA-PACT or 334-242-7514, by writing to the PACT office at the following address: PACT Program, 100 North Union Street, Suite 660, Montgomery, Alabama 36130-2530, or at the website www.treasury.state.al.us.

By completing the Application and submitting the Application Processing Fee, the Purchaser is making application to enter into a PACT Contract. After review and acceptance of the Application, the Purchaser will be mailed a Participation and Payment Schedule and a MasterPACT.

10.02 Naming the Qualified Beneficiary-Unless specifically exempted by the State Treasurer, a Purchaser must name the Qualified Beneficiary in the PACT Application at the time the Application is submitted. Only one (1) Qualified Beneficiary is allowed per PACT Contract. A specific Beneficiary may be named in only one (1) Contract. The Purchaser does not have to designate the Postsecondary Institution that the Beneficiary will attend until such time as the Qualified Beneficiary matriculates in accordance with Section 11.03.

If more than one (1) Purchaser submits an Application for the same Beneficiary, the first received will be accepted.

SECTION 11 THE PACT CONTRACT

11.00 General-The PACT Contract shall consist of the completed Application, the MasterPACT, and the Participation and Payment Schedule. Additional documents relating to the PACT Contract such as the Program Rules, Regulations and Procedures and the Disclosure Document, pursuant to the various terms and conditions described, will be incorporated into the PACT Contract.

11.01 Contract Benefits-The PACT Contract provides, unless otherwise stated herein, payment by the Trust Fund of Instate Tuition and Mandatory Fees, on behalf of the Qualified Beneficiary of the PACT Contract, to the Public Postsecondary Institution in which the Qualified Beneficiary matriculates.

The PACT Contract provides the following:

(1) Payment of Instate Tuition of not more than one hundred thirty-five (135) semester hours or the academic equivalent units on a quarter system or other academic term basis, OR payment of Instate Tuition until award of a baccalaureate degree to the Qualified Beneficiary, whichever comes first; AND

(2) Payment of Mandatory Fees for not more than eight (8) registrations on a semester system, twelve (12) registrations on a quarter system, or the completion of 135 semester hours or the academic equivalent units on a quarter system or other academic term basis, or until award of a baccalaureate degree to the Qualified Beneficiary, whichever comes first.

Any credit hours paid by the Trust Fund on behalf of a Qualified Beneficiary reduce the remaining available credit hours under the PACT Contract. Even if the credit hours paid by the Trust Fund on behalf of the Beneficiary are not counted by the Beneficiary's Postsecondary Institution toward a college degree, the credit hours paid by the Trust Fund will, nevertheless, decrease the remaining number of credit hours available for utilization under the PACT Contract.

The PACT Contract does not cover fees and costs related to dormitory housing or any other types of housing. The PACT Contract does not cover meals, books, transportation, supplies, professional school fees, laboratory or course specific fees, college application, entrance or orientation fees. The Contract also does not cover miscellaneous fees such as health fees, yearbook fees, student ID Card fees, fraternity or sorority fees. A

distinction is required for mandatory fees because of the institutional separation of tuition/fees.

No graduate program, continuing education program, professional degree program, or adult education program is available under the PACT Contract.

The PACT Contract covers only those costs and fees specified herein.

The benefits of a PACT Contract may not be used unless all Contract payments, Actuarial Assessments, and any outstanding Administrative Fees, have been paid, and the social security number of the Qualified Beneficiary has been provided.

11.011 Earliest Availability of Contract Benefits-In general, the earliest a Qualified Beneficiary may receive benefits under a PACT Contract purchased during any PACT Enrollment Period will be the year immediately preceding the Projected College Entrance Date of the Qualified Beneficiary as provided in the PACT Contract, unless the Beneficiary is an accelerated student. In the event the Beneficiary is an accelerated student, the PACT Contract may be used, with no penalty or additional Contract cost, within three (3) years in advance of the Projected College Entrance Date of the Qualified Beneficiary. A written statement from the Purchaser must be provided stating that the Beneficiary is an accelerated student.

The PACT Contract, and any outstanding Actuarial Assessments and Administrative Fees, should be paid in full to advance utilization of the Contract benefits prior to the Beneficiary's Projected College Entrance Date.

11.012 Beneficiary's Projected College Entrance Date-At the time of application, the Qualified Beneficiary's Projected College Entrance Date will be calculated to correspond to the Beneficiary's current age and/or grade. The PACT Contract Purchaser must submit a written request to change the Projected College Entrance Date to a later year. The written request must be accompanied by sufficient documentation substantiating the Purchaser's request for a change in the Beneficiary's Projected College Entrance Date. Acceptable documentation may include a certified letter from the Beneficiary's principal or school teacher verifying that the Beneficiary has or will be held back a grade. The Contract Purchaser must also sign a Certification Form agreeing to pay any additional amounts which may be due on the PACT Contract as a result of providing invalid information about the Qualified Beneficiary's Projected College Entrance Date and/or Contract payment amounts due. Both the required documentation and the completed and signed Certification Form must be submitted prior to the first payment due date of the PACT Enrollment Period in which the Qualified Beneficiary is enrolled in the PACT Program. If the Purchaser fails to provide all documentation within two (2) months of the first payment due date of the PACT Enrollment Period in question, PACT will not change the Qualified Beneficiary's Projected College Entrance Date or the PACT Contract amount due.

Furthermore, when the Qualified Beneficiary begins to use the PACT Contract benefits, if the Beneficiary enrolls in college in the Projected College Entrance year which corresponds to the Beneficiary's age or grade, and not in the later year furnished by the PACT Contract Purchaser when the PACT Contract was purchased, the Contract Purchaser must pay any Actuarial Assessments required to compensate for the difference in the PACT Contract price corresponding to the Projected College Entrance Date furnished by the Purchaser during the PACT Application process, and the actual date of college entrance when the Beneficiary matriculates.

If the beneficiary advances after the PACT contract is purchased and an account has been established, there will be no adjustment in the PACT Contract Payment Schedule. However, upon a written request with sufficient documentation from the Purchaser, the Alternate Projected Enrollment Year will be changed to reflect the revised College Entrance Date.

The Purchaser should provide written notice of intention to advance or to delay benefits under the PACT Contract a minimum of sixty (60) days prior to the new matriculation date of the Qualified Beneficiary.

11.02 Contract Term- Benefits under a PACT Contract may be received for up to a ten (10) year period after the Projected College Entrance Date of the Original Qualified Beneficiary. If the Beneficiary, however, is an accelerated student, the PACT Contract benefits may be used for up to ten (10) years after the actual college entrance date of the Qualified Beneficiary who is an accelerated student.

If a PACT Contract has not been Canceled or terminated and if the Qualified Beneficiary's rights under the Contract have not been fully exercised within ten (10)

years from the Projected College Entrance Date of the Original Qualified Beneficiary, or from the actual college entrance date for an accelerated student, reasonable effort will be made to locate the purchaser. If the purchaser cannot be located, PACT will presume the contract purchase amount abandoned property and will transfer this amount to the Unclaimed Property Division of the State Treasurer's Office according to Code of Alabama, Title 35, Chapter 12.

11.03 Notification of Intent to Receive Educational Benefits-At such time as the Qualified Beneficiary intends to begin using the benefits under the PACT Contract to attend a private or out-of-state postsecondary institution, the Contract Purchaser must submit written notification, including the name of the Postsecondary Institution the Beneficiary will attend, not less than sixty (60) days prior to the projected commencement date for utilization of Contract benefits by the Qualified Beneficiary. Failure to provide at least sixty (60) days advance notice may result in a delay in the availability of the PACT Contract benefits until the academic term immediately following the term in which the projected commencement date for utilization of the PACT Contract benefits falls.

11.04 Identification for Qualified Beneficiaries-To receive benefits under the PACT Program, a Qualified Beneficiary, whose PACT Contract is in good standing, will receive a letter prior to each summer college entrance period for which the PACT Contract applies. A list of eligible beneficiaries is made available to the colleges/universities in the State of Alabama. The Postsecondary Institution in which the Qualified Beneficiary has entered should not invoice the Trust Fund on behalf of the Beneficiary unless the Beneficiary's name appears on the eligible roster provided by PACT.

11.05 PACT Contract Prices-New PACT Contract prices will be established by the Board of Trustees, for each PACT Enrollment Period. Contract prices will be based on actuarial assumptions recommended by the Actuary regarding tuition rates and other relevant factors. PACT Contract prices will not include the Application Processing Fee. The contract price may include a nonrefundable Account Maintenance Fee in accordance with Section 12.012.

After a Purchaser has entered into a PACT Contract, the Contract price will not change, unless otherwise specified herein. Establishment of new prices for future PACT Enrollment Periods will NOT affect or change the pricing of PACT Contracts purchased during previous PACT Enrollment Periods.

11.06 PACT Contract Payments-PACT Contract payments are due in full on the dates specified in the PACT Contract. Contract payments may be made under one of three (3) different Participation and Payment Schedules as follows:

- (a) A lump sum payment due in full on or before the date designated; or
- (b) Monthly payments over a period of sixty (60) continuous months. The payments shall begin on the date specified and will continue on a monthly basis thereafter until the PACT Contract is fully paid. The final payment must be received by the State Treasurer not later than the summer immediately preceding the Projected College Entrance Date of the Qualified Beneficiary. The specific due date of the final payment will be specified in the PACT Contract. Additionally, the amount of each monthly payment will be specified in the PACT Contract. The sixty (60) month payment option is not available for Beneficiaries who are in the eighth (8th) or ninth (9th) grade on the first day of the PACT Enrollment Period during which the PACT Contract is purchased; or
- (c) Continuous monthly payments beginning on the date specified and continuing on a monthly basis, until the summer immediately preceding the Projected College Entrance Date of the Qualified Beneficiary. The specific due date of the final payment will be specified in the PACT Contract. The amount of each monthly payment will also be specified in the PACT Contract. Monthly payments for both the sixty (60) month payment option and the extended monthly payment option will be calculated based on an implied rate of interest and a monthly Account Maintenance Fee.

11.07 Default-Failure to make any payment within thirty (30) days of the due date shall constitute default by the Purchaser and a suspension of the Qualified Beneficiary's rights under the PACT Contract. A Purchaser may reinstate his or her good standing provided that all delinquent amounts, including late payment fees, have been paid. If within 180 days of default, payment is not received, the contract will be cancelled.

11.08 Reinstatement of a Cancelled Account-If a PACT contract has been cancelled, the purchaser may request reinstatement. The request may be made in writing with sufficient justification. The amount required to bring the account current, including the total of all payments to date, all outstanding fees and an actuarial assessment, must be paid in full before the beneficiary's right to receive contract benefits is reinstated.

11.09 PACT Contract Modifications-All requests by PACT Contract Purchasers for a modification of the Contract provisions must be submitted in writing and must be accompanied by the applicable Administrative fees.

11.10 Change in Payment Schedule-A PACT Contract Purchaser may request a change in payment schedule any time during the PACT Enrollment Period in which the Purchaser enters the PACT Program and extending through the 10th day of the month in which the first payment is due.

Purchasers electing a monthly payment plan may pay off the plan early. In such cases, the Purchaser can obtain a payoff amount by calling 1-800-252-7228.

11.11 PACT Contract Payment Methods-Any one of a variety of payment methods is available to a PACT Contract Purchaser. These may include payment by coupon book, automatic deduction from a bank account (automatic clearinghouse checks), or payroll deduction. A Purchaser may change payment method after submitting a written request.

Contract Purchasers electing payment by coupon book will be responsible for making all payments on time, even if the Purchaser has not received a coupon book. Similarly, a Purchaser will be responsible for making all payments on time, prior to implementation of payroll deduction or automatic deduction from a checking or savings account. Any Purchaser who delays payment beyond the payment due date, until a coupon book has been issued or until payroll deduction or automatic bank deduction has been implemented, may be assessed late payment fees and an Actuarial Assessment.

11.12 Contract Exclusions- Nothing in these Rules, Regulations and Procedures, in the PACT Contract, or in the Wallace-Folsom College Savings Investment Plan Act shall be construed as a promise or guarantee by the State Treasurer, the Board of Trustees, or employees or consultants of the State Treasurer and/or the Board of Trustees, of any of the following:

- Admission of the Qualified Beneficiary to a Postsecondary Institution.
- Admission of the Qualified Beneficiary to a particular Postsecondary Institution.
- Authorization to the Qualified Beneficiary to continue enrollment at a Postsecondary Institution after admission.
- Graduation of the Qualified Beneficiary from a Postsecondary Institution.
- Qualification of the Qualified Beneficiary as an instate resident for instate, rather than out-of-state, Tuition and Mandatory Fees.

No continuing education courses, graduate program, first professional program, or adult education program is available under the PACT Program.

Tuition and Mandatory Fees paid under a PACT Contract will be the amount of Instate Tuition and the amount of Instate Mandatory Fee charges only. A Beneficiary who matriculates and who does not meet the instate residency requirements of the selected Alabama Public Postsecondary Institution, as determined by that institution at the time benefits under a PACT Contract are requested, shall receive the PACT Contract benefits at the Instate Tuition and Mandatory Fee rates. PACT will not pay tuition charges or Mandatory Fee charges at a rate in excess of the rate charged to students who are eligible for Instate Tuition and Mandatory Fee rates.

SECTION 12 ADMINISTRATIVE FEES

12.00 Administrative Fees-Administrative Fees are assessed when a Purchaser submits an application for a PACT Contract, when payments are made, or when alterations are made in Contract information or in the ordinary services provided under the PACT Program. The types of fees as well as the amount charged for each are subject to change during the life of any PACT Contract.

12.01 Fees Assessed and Fee Schedules-The following Administrative Fees and fee schedules will apply to all Purchasers of PACT Contracts, subject to changes the Board, may make over the life of the Contract in the types and/or amounts of such Administrative Fees:

12.011 Application Processing Fee-A one hundred dollar (\$100.00) Application Processing Fee will be collected for EACH PACT Application at the time that the Application is submitted to the State Treasurer. An Application will not be accepted unless the full amount of the Application Processing Fee is submitted along with the Application.

In general, the Application Processing Fee is nonrefundable. The Application Processing Fee will only be refunded if the PACT Application is rejected and the Purchaser is denied participation in the PACT Program through no fault of the Purchaser.

12.012 Account Maintenance Fee-All PACT Contract payments include a nonrefundable account maintenance fee. The account maintenance fee is \$3 per month for each monthly payment and a fee of \$75 for lump sum payments.

12.013 Cancellation Fee- A cancellation fee of \$75 will be assessed upon the cancellation of a PACT Contract. The Cancellation Fee will be waived in the event of death or Disability of the Qualified Beneficiary, or receipt of a scholarship.

In the event of death or Disability of the Qualified Beneficiary, the Purchaser must submit acceptable documentation along with a written request at the time of application for a refund.

12.014 Substitution of Beneficiary Fee-A fifty-five dollar (\$55.00) fee will be assessed to transfer PACT Contract benefits to a Substitute Beneficiary. In the event of death or Disability of the original Beneficiary, or in the event the Beneficiary receives a Full or Partial Scholarship, this fee may be waived. Proof of death or Disability of the Qualified Beneficiary, or receipt of a Full or Partial Scholarship by the Qualified Beneficiary, must be provided on the applicable form.

12.015 Fee for Transfer of Contract Ownership to Another Purchaser-A twenty dollar (\$20.00) fee will be assessed to transfer ownership of the PACT contract to a different Purchaser in accordance with the provisions of Section 8.03 herein. In the event of Death or Disability of the current Purchaser, this fee may be waived.

12.016 Matriculation Fee for Enrollment in an Independent/Private Instate Postsecondary Institution or an Out-of-State Postsecondary Institution-In the event a Qualified Beneficiary elects to attend an Independent/Private Instate Postsecondary Institution or an Out-of-State Postsecondary Institution, the Contract benefits will be transferred to such other Postsecondary Institution in accordance with the provisions of Section 13. Each time a transfer occurs, the PACT Contract Purchaser will be assessed a twenty-five dollar (\$25.00) processing fee per transfer, i.e. per academic term. This fee is deducted from the amount paid to the college or university.

12.017 Late Payment Fee-A late payment fee of fifteen (\$15.00) dollars shall automatically be assessed on each monthly PACT Contract payment received more than fifteen (15) days past the payment due date. A grace period, up to four (4) days in length, may be granted when a federal and/or State holiday occurs within the fifteen (15) days specified in this Section.

12.018 Fee for Returned Items-A fifteen dollar (\$15.00) returned item fee shall automatically be assessed for any returned item including, but not limited to, payment made by check or through ACH (Automatic Clearinghouse). Such payments include both PACT Contract payments and Administrative Fee payments that are returned.

12.019 Fee for Document Replacement or Copies-Except as provided herein, Purchasers and/or Beneficiaries shall automatically be assessed a seven dollar (\$7.00) fee per document (not per page) when requesting more than one copy, or a replacement copy, of any PACT document including, but not limited to, the PACT Application, the Participation and Payment Schedule, the MasterPACT, the coupon book, and the identification card. If another gift pack is requested, a \$7.00 fee will be assessed for the entire gift pack rather than for each document contained in the gift pack.

12.020 Fee for Changes in Payment Schedule-A twenty dollar (\$20.00) processing fee will be assessed for a change in payment schedule.

SECTION 13
ATTENDANCE AT AN INDEPENDENT/PRIVATE
INSTATE OR AN OUT-OF-STATE
POSTSECONDARY INSTITUTION

13.00 Utilization of PACT Contract Benefits at an Independent/Private Instate Postsecondary Institution or an Out-of-State Postsecondary Institution-In the event the Qualified Beneficiary matriculates in an Independent/Private Instate Postsecondary Institution or an Out-of-State Postsecondary Institution, the Current Tuition Value will be forwarded, each academic term, to the Postsecondary Institution on an academic equivalent hourly basis subject to the provisions of the PACT Contract described in Section 11.01. In no case will the amount forwarded exceed the cost of undergraduate tuition plus Mandatory Fees of the Postsecondary Institution to which the money is forwarded for the particular academic hours and term in questions.

Forwarding of PACT Contract benefits under this Section will be made only when all of the following have occurred:

- (1) The Purchaser has submitted a written request and all applicable Administrative Fees for transfer of the PACT Contract benefits. The request should be submitted not less than sixty (60) days in advance of the first academic term for which the PACT Contract benefits are to be paid;
- (2) The Purchaser has paid the applicable Administrative Fee(s) in accordance with Section 12.016;
- (3) PACT has received a valid invoice from the Beneficiary's college or university after the end of the institution's official drop/add period each academic term for which PACT Contract benefits are to be paid.

Failure to comply with the sixty (60) day requirements in this Section may result in the delay or unavailability of the PACT Contract benefits until the following academic term.

SECTION 14
CANCELLATION
OF A PACT CONTRACT

14.00 General-Unless otherwise stated herein, Cancellation of a PACT Contract shall result in a refund to the Purchaser only after payment of applicable Administrative Fees.

14.01 Individual Entitled to Cancel a PACT Contract-The person entitled to cancel a PACT Contract is the Contract Purchaser.

14.02 Individual Entitled to Receive Refunds-Unless otherwise stated herein, the individual entitled to receive any refunds which may be due under a PACT Contract is the named Contract Purchaser.

SECTION 15
REFUND OF AMOUNTS PAID
INTO THE TRUST FUND

15.00 General-Unless otherwise stated herein, refunds will be paid to the Purchaser.

Refund amounts will be based on the reason for Canceling a PACT Contract. Termination of student status after the official drop/add period eliminates the refund option for that academic term.

If a Qualified Beneficiary does not receive course credit for credit hours paid under a PACT Contract, a refund will not be available for these credit hours. Furthermore, once the Trust Fund has paid a Postsecondary Institution for credit hour(s) and fees on behalf of a Qualified Beneficiary, the hour(s) and fees paid to the Postsecondary Institution reduce the total number of credit hours and fee terms available for calculation of any refund amount that may be due to the Purchaser.

If the Qualified Beneficiary achieves a baccalaureate degree in fewer than the maximum number of credit hours provided under a PACT Contract and/or in fewer than the number of academic terms for which payment of Mandatory Fees is provided under the Contract, a refund will not be available. As soon as a Qualified Beneficiary attains a baccalaureate degree, and/or utilizes the total number of credit hours provided under the Contract, all services under the PACT Contract will be Terminated.

15.01 Refund in the Event of Death or Disability of the Qualified Beneficiary; or in the Event the Beneficiary is a Dependent of a Blind Parent; or in the Event the Beneficiary is a Dependent of a Deceased or Disabled Veteran or of a Prisoner of War-In the event of death or Disability of a Qualified Beneficiary; (b) in the event the Beneficiary is a dependent of a blind parent under Title 16, Sections 33-1 through 33-12, Code of Alabama, 1975 (as last amended); or (c) in the event the Beneficiary is a dependent of a deceased or disabled veteran or a prisoner of war under Title 31, Sections 6-1 through 6-4, Code of Alabama, 1975 (as last amended), the Purchaser shall receive a refund of the Redemption Value of the contract. The cancellation fee will be waived.

For the refund provisions stated herein to apply, the Purchaser must submit a written request for Cancellation of the PACT Contract. The written request should be submitted within one hundred eighty (180) days of the death or Disability of the Qualified Beneficiary or within one hundred eighty (180) days of the Beneficiary's qualification under the Code of Alabama, as referenced herein. Furthermore, proof of qualification under the Code of Alabama must be submitted in writing. If the written request and required documentation are not submitted within the one hundred eighty (180) day deadline, the refund provisions of Section 15.05 may apply.

15.02 Refund in the Event of a Reduction in Tuition and/or Fees for a Child of an Employee of a Postsecondary Institution-Some Postsecondary Institutions may charge lower tuition and/or fees to a student who is a child of an employee of the Postsecondary Institution. If a PACT Contract Beneficiary is eligible for this reduction, the Contract Purchaser may elect to cancel the PACT Contract and request a refund under Section 15.05 herein. The refund will be equal to the Redemption Value of the Contract. If the Purchaser does not cancel the PACT Contract, PACT will pay the college or university based on the invoice submitted by the Postsecondary Institution and subject to the provisions of PACT stated in these Rules, Regulations, and Procedures.

15.03 Refund in the Event of Receipt of a Full or Partial Scholarship by a Qualified Beneficiary- If a Qualified Beneficiary is awarded a Full or Partial Scholarship, the terms of which fully or partially cover the benefits provided in the PACT Contract, payments from the Trust Fund will be made to the Postsecondary Institution in which the Beneficiary matriculates upon receipt of an invoice for tuition and mandatory fees. It will be the responsibility of the Beneficiary to request a refund of overpayment of tuition and Fees from the college or university attended by the Beneficiary

15.04 Refund if the Beneficiary Matriculates in a Military College or University-In the event the PACT Contract Beneficiary matriculates in one of the U.S. Government sanctioned military academies listed below, the Purchaser can request a refund of the Redemption Value of the Contract; the cancellation fee will be waived. A request for a refund should be submitted within sixty (60) days of the Beneficiary's enrollment in the military college or university and must be accompanied by written documentation evidencing enrollment. Otherwise, the refund provisions of Section 15.05 may apply. The provisions herein apply to attendance at any one of the following military academies:

- The United States Air Force Academy in Colorado Springs, Colorado
- The United States Naval Academy in Annapolis, Maryland
- The United States Military Academy at Westpoint, New York
- The United States Merchant Marine Academy at Kingspoint, New York
- The United States Coast Guard Academy in New London, Connecticut

15.05 Other Refunds-Refunds for reasons or circumstances other than those stipulated above in Sections 15.01, 15.02, 15.03, and 15.04, will be made to the Purchaser upon written request for cancellation by the Purchaser. The Purchaser will be entitled to a refund equal to the Redemption Value of the Contract. A cancellation fee will also be charged.

SECTION 16 SPECIAL PETITION

16.00 General-Any individual, corporation, organization, or other Entity desiring to petition for relief from the Rules, Regulations, and/or Procedures dictated herein may do so by filing a written petition with the Board. The petition shall contain the name and address of the person requesting relief; the specific nature of the relief requested; the name and address of any Purchaser or Beneficiary on any disputed PACT Contract; the PACT Contract account number(s) of the Contract(s) in question; the rule, regulation, and/or procedure from which the Petitioner is requesting relief; the date of request; the social security number or tax identification number of the Beneficiary and of the Purchaser; and the sworn signature of the petitioner. The response to the petition will be in writing and will be made within ninety (90) days of receipt of the petition from the individual requesting relief.

SECTION 17 MISCELLANEOUS PROVISIONS

17.00 Promulgation and Amendment of these Rules, Regulations, and Procedures-The Board shall promulgate such other Rules, Regulations, and Procedures as are deemed necessary to implement the PACT Program and shall amend such Rules, Regulations, and Procedures as is necessary for operation of the PACT Program.

SECTION 18 ROLLOVERS

18.00 General – A rollover occurs when funds are transferred from one qualified college savings program to another. Rollovers may be tax-exempt when the transfer occurs within 60 days of withdrawal.

18.01 Rollover from another Qualified Program to PACT – PACT will accept rollovers from qualified programs, provided a PACT account has already been established and the appropriate form is completed.

18.02 Rollover from PACT to another Qualified Program – PACT does not process rollovers; however, a purchaser may submit a written request for cancellation of the PACT account. A refund check will be issued to the purchaser. The cancellation letter from PACT may serve as documentation for the new program.

SECTION 19
PACT RULES, REGULATIONS, AND PROCEDURES
OR CORPORATIONS, TRUSTS,
CHARITABLE ORGANIZATIONS, AND
OTHER QUALIFIED ENTITIES

19.00 General-These Rules, Regulations, and Procedures have been approved by the Board for Contract Purchasers who are not natural persons. The Board has determined that entering into PACT Contracts to be awarded to Beneficiaries who are not immediately known will allow and encourage corporations, trusts, charitable organizations, foundations, civic groups and other interested parties, who are not natural persons, to enter into PACT Contracts. This type of Contract will also provide educational benefits to Beneficiaries who might otherwise not be able to afford postsecondary education.

For the purpose of these Rules, Regulations, and Procedures, the term "Entity" shall mean any corporation, trust, charitable organization, or any other business or organization which is not a natural person. Unless specifically exempted herein, all Rules, Regulations, and Procedures pertaining to PACT Contract Purchasers who are natural persons also apply to any Purchaser that is an Entity.

19.01 Naming the Beneficiary-An Entity which purchases a PACT Contract is not required to name the Contract Beneficiary at the time the PACT Application is submitted. However, if the Entity submits a PACT Application for an unnamed Beneficiary, a Projected College Entrance Date for the unnamed Beneficiary must be specified on the PACT Application. The age of the unnamed Beneficiary on the PACT Application will be the normal age for a Beneficiary expected to enter college in the Academic School Year corresponding to the Projected College Entrance Date. For purposes of the PACT Program, the unnamed Beneficiary will be called either "John Doe" or "Jane Doe." The Beneficiary should be named not less than six (6) months prior to the Projected College Entrance Date specified by the Entity on the PACT Application.

19.02 Beneficiary Eligibility-If the Beneficiary is named at the time the PACT Application is submitted, the Beneficiary eligibility requirements of Section 9.00 are applicable. If the Beneficiary is not named when the PACT Application is submitted, at such time as the Beneficiary is named, the named Beneficiary must meet all of the following requirements:

- The Beneficiary must have a college enrollment year that is the same year as the Projected College Entrance Date provided in the PACT Application by the Entity.
- The Beneficiary must be born and have a valid birth certificate.

19.03 Beneficiary Substitutions-Should the named Beneficiary elect not to use the PACT Contract benefits, the Contract can be transferred to an Eligible Substitute Beneficiary as defined in the Internal Revenue Code of 1986.

19.04 Application-For any corporation or trust submitting a PACT Application, the Application may be considered incomplete unless the corporate Application is accompanied by the corporation's Certificate of Good Standing, or unless the trust Application is accompanied by the declaration page of the trust. Furthermore, the Entity must provide its taxpayer identification number on the Application, and the Application must be complete in all other respects as described in Sections 10.01 and 19.02.

19.05 Utilization of the PACT Contract Benefits-The PACT Contract benefits may not be used unless the Purchaser has furnished the name, age, and social security number of the Qualified Beneficiary and has complied with all other applicable Rules, Regulations, and Procedures pertaining to Purchasers who are natural persons.